

**MINUTES
REGULAR MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, March 20, 2009
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Michael Townsend, Chair of the ASRS Board, called the meeting to order at 8:30 AM, MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Michael Townsend, Chair
Mr. Dave Byers, Vice-chair
Mr. Chris Harris
Mr. Jaime Gutierrez
Dr. Keith Meredith
Mr. Larry Trachtenberg (via telephone)
Mr. Steve Zeman
Mr. Tom Connelly

Absent: Mr. Jim McLaughlin

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the February 20, 2009 Regular Session and Special Session of the ASRS Board

Motion: Mr. Steve Zeman moved to approve the minutes of the February 20, 2009, Regular and Special Session of the ASRS Board.

Mr. Chris Harris seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Approval, Modification or Rejection of Recommended Administrative Law Judge's Decision Regarding Steve Marrone

Mr. Thomas McClory, Assistant Attorney General, noted Mr. Steve Marrone asserts that he should be allowed to make a 1 year service purchase.

Mr. McClory stated that there are several statutes in place that show Mr. Marrone's claim does not apply to this situation. Mr. Marrone completed an ASRS Enrollment Form which was signed and dated by him in October 1981, and his stated beginning employment date was October 4, 1981. On July 1, 2007, Mr. Marrone transferred his ASRS account to Correctional Officers Retirement Plan (CORP). Statutes state that a member who transfers to a different retirement system is entitled to have all credited service transferred to the new retirement

system. However, required contributions were not received on behalf of Mr. Marrone for the months of December 1980 through June 1981. Therefore, ASRS service credit was not received for that time period nor was it transferred to CORP.

Mr. Marrone stated he should receive service credit for January 1981 through June 1981.

Mr. McClory stated Mr. Marrone's request was not eligible for processing as a Contributions Not Withheld (CNW), because his request was not made to the ASRS within fifteen years as required by statute.

Motion: Dr. Keith Meredith moved to accept the ruling of the Administrative Law Judge.

Mr. Tom Connelly seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the 2009 Legislative Session

Mr. Patrick Klein, Assistant Director, External Affairs Division, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the 2009 ASRS legislation. Ms. Sorensen gave a general update highlighting bills of interest.

5. Presentation, Discussion and Appropriate Action Regarding Outcomes of the ASRS Information Technology (IT) Plan

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, addressed the Board regarding the IT Plan, presenting the background and goals. The IT Plan was first proposed in CY 2000 and was designed to re-engineer, rebuild and integrate major business functions, and utilized new databases, imaging, work flow and phone technologies, as well as a new web platform and financial management system. It was also designed to develop staff for the new work environment. The Plan stayed within its appropriated budget and it achieved its strategic outcomes.

Mr. Guarino and Ms. Sara Orozco, Strategic Planning Manager, presented the strategic outcomes of the IT Plan. The ASRS now ranks as one of the top performers as compared with peers, regarding service. ASRS cost effectiveness is likewise comparable to peers who rank as top performers. As a result of the effort, timeliness, reliability, and accessibility have improved, causing member satisfaction to be very high at this time.

Mr. Robert Solheim, Independent Advisory Consultant, Provalient, commended the ASRS on the accomplishment. Mr. Townsend also commended staff, especially since technology has changed during the IT Plan. Mr. Guarino noted that new legislation caused the Plan to take seven years to complete, instead of five years, as originally planned. During the Plan's implementation, staff adapted to changing technology and adopted a more dynamic iterative development method.

Mr. Paul Matson congratulated staff on the achievement. Mr. Kent Smith, Assistant Director, Technology Services Division, recognized the Operations Committee, Board, Director, Mr.

Solheim, the Deputy Director, Ms. Orozco, management, and staff for their contribution to the effort.

6. Director's Report

Mr. Matson stated the Internal Audit Division audited refunds processed and no errors were found. Service Purchase Cost invoices were audited at a 98.63% quality rating, meeting the 98% agency standard for quality. Mr. Matson explained that the ASRS holds additional fixed income securities that are below investment grade per Moody's ratings. In late 2008 and Jan/Feb 2009, rating agencies made a series of rating changes to select corporate, commercial mortgage-backed securities (CMBS) and asset backed securities (ABS), previously investment grade issues. These rating changes were broadly anticipated by the market, were dominated by more downgrades than upgrades and reflect "overdue" rating actions more consistent with today's trading prices seen in the corporate and select securitized fixed income markets. Changes were disseminated to applicable ASRS fixed income investment managers via a Letter of Direction and Clarification stating "Fallen Angel" securities (those fixed income securities whose ratings had fallen below BBB) are now allowed to be held up to 10% of the market value of the manager's portfolio. The managers will keep Investment Management Division staff apprised of affected securities (and those that may become affected) until the time of liquidation or upgrade to above the minimum permitted rating. In aggregate, approximately \$20 million (< 1%) of total market value of ASRS fixed income portfolios currently fall into this fallen angel bucket.

7. Possible Presentation Regarding Board Committee Updates

Mr. Jaime Gutierrez, Chair, External Affairs Committee (EAC), stated that the next EAC meeting will take place April 3, 2009, and the EAC is waiting to see what the legislature is doing.

Mr. Tom Connelly, Chair, Investment Committee (IC), stated that the next IC meeting will take place immediately following the Board Meeting, March 20, 2009, and the IC will review recent market events.

Mr. Dave Byers, Chair, Operations Committee (OC), stated that the OC meeting will be on April 23, 2009, and the OC will discuss health care.

8. Board Requests for Agenda Items

There were no requests for agenda items.

9. Call to the Public

No members of the public requested to speak.

10. The next ASRS Regular Board meeting is scheduled for Friday, April 17, 2009, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

11. Presentation, Discussion and Appropriate Action with Respect to the 2008 Review of the Director of the ASRS

Motion: Mr. Chris Harris moved the Board adjourn to Executive Session. Mr. Steve Zeman seconded the motion. Mr. Townsend said the Executive Session would take place in the 14th floor conference room and would adjourn from there.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

The Board recessed to from Regular Session at 9:41 A.M., to relocate to the 14th floor.

The Board convened to Executive Session at 9:45 A.M.

The Board returned to Regular Session at 11:05 A.M.

Mr. Townsend commended the Director on the excellent performance of himself and the agency over the past year. Under normal economic conditions, the Board would offer the Director a salary increase. However, due to current market conditions and the Director's statement that he would not accept a salary increase, the Board will not do so.

Motion: Mr. Jaime Gutierrez moved to appoint Paul Matson the Director for another year, effective July 1, 2009;

And

Move to secure released time approval for up to two weeks;

And

Move to secure exemption of key ASRS staff, to include the Director and Investment personnel, from ADOA personnel regulations.

Mr. Harris seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions and 1 excused, the motion was approved.

12. Adjournment of the ASRS Board

Mr. Townsend adjourned the March 20, 2009, Board meeting at 11:11 AM.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Hanneman, Secretary

Date

Paul Matson, Director

Date